Connexional Central Services Budget 2014-2015 – discussion paper

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Status of Paper	Final
Action Required	Discussion
Draft Resolution	See questions at the end of the paper
Alternative Options to Consider, if Any	Contained within the questions – no decisions required

Summary of Content

Subject and Aims	Initial discussion of various points from the Strategy & Resources Committee (SRC) that will inform the budget preparation process.
Main Points	• Reserves policies for connexionally-held funds • The reserves policy and use of the Connexional Priority Fund (CPF) • Long-term funding for core heritage sites • The reserves policy and use of the World Mission Fund (WMF) • The budgetary impact of the Discipleship & Ministries Learning Network (DMLN)
Background Context and Relevant Documents	2013 Conference paper 24, Connexional Central Services Budget
Consultations	The SRC has agreed that these issues be raised with the Council. The Connexional Leaders' Forum will be consulted between the paper being submitted and the Council meeting.

Summary of Impact

Financial	Will cover all connexional funds
Wider Connexional	Formula for MCF assessment already agreed by the 2013 Conference. Although not mandatory, some circuit and district employers adopt the Council lay pay increase.

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1. Introduction

1.1 This paper covers a slightly disparate group of matters relating to ongoing financial planning, all of which will impact on the preparation of the next Connexional Central Services Budget (CCSB). The SRC has discussed them and the Council is now asked for its views as part of the evolution of the next three year budget.

- Reserves policies for connexionally-held funds
- The reserves policy and use of the Connexional Priority Fund (CPF)
- Long-term funding for core heritage sites
- The reserves policy and use of the World Mission Fund (WMF)
- The budgetary impact of the Discipleship & Ministries Learning Network (DMLN)

2. Reserves policies for connexional funds

2.1 Recent practice has resulted in a reserves policy being defined and stated in the consolidated accounts for the Methodist Church Fund (MCF), but not for any of the connexional designated or restricted funds, despite local churches and circuits having to set such policies. An effective reserves policy is in line with Charity Commission guidelines, but more particularly represents effective stewardship of the Church's resources in fulfilling God's mission. It is no more appropriate to continue to accumulate vast financial reserves than it is to embark on major expenditure without any knowledge of the funds available.

2.2 Responding to discussions between Team staff, the connexional treasurers and the Audit Committee, the SRC has now agreed that a reserves policy should be formulated for each connexional fund with a balance in excess of £2m. This approach would be consistent with that regarding which individual funds are disclosed separately within the annual accounts. As part of this, the policy for the MCF should be updated – the revised policies will encourage proper stewardship of the funds and assist the Investment Committee in its decision-making to maximise income.

2.3 This work will be undertaken as part of the natural budget preparation process, but as a starting point the SRC discussed two of the largest connexional funds as follows.

3. The reserves policy and use of the Connexional Priority Fund (CPF)

3.1 The CPF is one of the Methodist Church's largest designated connexional funds, with an unaudited year-end value at 31 August 2013 of £11.36m net of grant commitments. Unlike the main restricted funds, the CPF's main income is not derived from donations, but from the amount levied on property sales across the connexion each year. Total 2012-13 levy income net of replacement project refunds was £5m, plus approx £480k investment income. Aside from the agreed grants, which include funding for Venture fx and Fresh Expressions for the next five years, the fund's annual income is largely disbursed in accordance with Standing Orders and decisions of the Conference:-

45% of net levy income to the Pension Reserve Fund (PRF)
27.5% of net levy income to District Advance Funds (DAFs)
11% of net levy income to the MCF management charge

£1m per annum (irrespective of income) to the DMLN budget

3.2 In 2013-14 this all resulted in a small net outflow from the fund of £200k – a marginal decrease, particularly given that levy income was low by the standard of recent years. The SRC therefore intends, as part of the forthcoming budget cycle, to propose to the Council a reserves policy for the CPF, within which the level of the fund can be managed over the following years. The levels of income allocated to the PRF, DAFs, the MCF and the DMLN will need to be reviewed periodically and these decisions will be more effective if taken against the backdrop of an agreed reserves policy for the fund.

3.3 The SRC has agreed that the reserves level of the CPF to be set at £5m. The main requirement for reserves is derived from the potential future applications for levy refunds related to replacement projects. Churches and circuits can apply under SO 973 for a refund up to five years after the sale of the property involved. As a result, there will always need to be sufficient reserves held for a further five years of applications. These would continue on a tapering basis if the current operation of the fund ever ceased and based on current levels of activity a reserve figure of £3m has been calculated to be appropriate. The remaining £2m would primarily cover the requirement to pay the fixed amount of £1m towards the costs of the DMLN irrespective of income cover fluctuations. If income was to drop suddenly, it would provide breathing space for alternative arrangements to be made in terms of both reducing costs and diverting other funding stream. It would also cover fluctuations in investment values from year-to-year.

3.4 If a level of reserves of £5m is agreed, then it is proposed that a three year budget commencing from 1 September 2014 should be produced to show a reduction in the balance of the fund to £5m by the end of three years – a net outflow of over £6m over that period.

3.5 The CPF is a fund that is unique to the Methodist Church and is arguably one of the most powerful illustrations of connexionalism, as a proportion of each local Methodist property sold is levied into it for re-distribution connexionally. It is often not viewed this way by local church or circuit trustees who tend to see the outflow of money from the funds for which they are responsible without necessarily recognising the benefit of the return flow into the Pensions Reserve Fund or District Advance Funds. One of the questions arising from 'a generous life' is how it challenges the Church connexionally to show generosity to the community around it. Any decision to reduce the overall reserve level of the CPF could therefore potentially result in a generous connexional approach to certain mission and ministry work amongst local communities, that also helps local Methodists to regain some ownership of the fund and the levies that are collected into it.

3.6 The SRC has asked the SLG to submit more detailed options to its meeting in March, based on consultations with appropriate bodies. The Council is therefore asked to comment on the following:-

a) Should this planned reduction in the reserves of the fund include a reduction in the level of property levy made? [Given that both connexional pension schemes will be re-valued after 31 August 2014 it would not be appropriate to reduce the PRF income by altering the levy until 2015 at the earliest]
b) Can the Council suggest specific types of CPF-funded initiatives that could be considered?
c) Would the Council prefer a model where projects are managed connexionally or where, for example, the Connexional Grants Committee (CGC) is asked to oversee grants for a

specific category of locally managed mission & ministry projects, or a combination of the two?

3.7 The SRC has also agreed to propose to the Council within the budget in April that it direct the CGC to allocate a proportion of the CPF to funding the core heritage sites at the end of the current grant cycle – see next section.

4. Long term funding of core heritage sites

4.1 The Conference of 2008 established the Methodist Heritage Committee (MHC) which is required under SO 337(1)(vi) "to give support specifically to those which have been identified as being of particular significance to the wider Connexion, namely:

- The Old Rectory, Epworth, Lincolnshire
- The New Room (John Wesley's Chapel), Bristol
- Wesley's Chapel, John Wesley's House and the Museum of Methodism, City Road, London
- Englesea Brook Chapel and Museum of Primitive Methodism"

4.2 This support has been provided in two ways. The most visible was the creation of the new post in the Connexional Team of Methodist Heritage Officer (MHO), to which Jo Hibbard was appointed in 2009-10. Jo has worked tirelessly alongside the MHC in a wide range of activities including creating an overarching 'Methodist Heritage' brand, launching a highly popular guidebook and web resources and in assisting the trustees of the four key sites in particular to develop their businesses.

4.3 There was previously no coherent financial support for these sites, but in 2011 the Council and the Conference (resolution 12/3) directed the CGC to support the creation of a post of curator at each site at an approximate cost of £37.5k each. Grants were awarded from the Mission in Britain Fund covering the 3 years up to 31 August 2014 and these are now being extended by two years to 31 August 2016. Therefore, any longer term funding would either commence from 1 September 2017 or would commence on 1 September 2015 replacing those MiBF commitments, freeing the MiBF money up for new grants. Given that they have been frozen at £37.5k per annum, there would be the need to link ongoing amounts to the same amount budgeted annually for lay pay increases.

4.4 It is the view of the MHO and MHC that continued funding of these posts represents the most effective ongoing connexional financial support so it is proposed that this continues within the budget on an ongoing basis from the CPF. These would effectively be grants that were ongoing until it was decided via a future budgeting process that they were no longer required or affordable. The grants would continue to be administered to each set of trustees via the CGC. Annual applications would not be required, but the CGC's Monitoring, Evaluation, Learning and Dissemination group would be responsible for ensuring that the money was used as intended and that each site was being used for mission as intended.

4.5 The SRC agreed that provision be made in the 2015-16 CCSB as outlined above, but the Council is invited to make initial comments now regarding the proposal.

5. The reserves policy and use of the World Mission Fund (WMF)

5.1 One of the distinctive characteristics of the Methodist Church in Britain has been its long commitment to overseas mission, now largely expressed through its relationship with partner

churches and ecumenical relationships across the world. The continued priority of this work is shown by the ongoing relatively high levels of giving to the WMF – whose status as the largest connexionally held fund reflects a level of assets and reserves built up over many years.

5.2 Although there are some benefits to holding long term investments to generate income, it is clear that over the years, churches, circuits and individual members have given generously on the basis that the money will indeed be used for world mission, not to preserve the large size of the fund. The current uncommitted balance of around £19m reflects both this ongoing desire, but also the lack of a fund-specific reserves policy or strategic view of the long term use of the WMF.

5.3 Work originally initiated by the All Partners Consultation, plus current reflection of the role of scholarship and leadership grants and mission partners, provides the opportunity now for the SRC to initiate a focussed review of the use of the WMF and a reserves policy that will assist the Church in best utilising the fund over the next 5 to 10 years.

5.4 The WMF is often closely associated with the World Church Relationships (WCR) team, but as a fund under the managing trusteeship of the Council and one within which the Methodist Church in Ireland has a stake, the SRC is the body with oversight on behalf of the Council of the fund's use in its totality. It will thus bring recommendations to the Council about the strategic use of the fund, including matters such as the deployment of Mission Partners, funds available to the CGC and its use for some regular expenditure administered by the Team.

5.5 The SRC has therefore asked the Senior Leadership Group (SLG) to prepare initial proposals regarding the strategic use of the WMF and the Council is invited to provide suggestions that can be incorporated into that work. There is an understanding that this may not necessarily result in significant changes to the already agreed three-year WMF budget, but rather as the start of necessary conversations that will potentially lead to much clearer and ambitious plans for 2015-16. This proposal will include a clear explanation of the existing streams of use for the Fund and where the responsibility for administration lies. It will conform to the purposes of the WMF as defined in SO 362(2) and reflect the recommendation to the 2013 Conference of the Methodist Missionary Society Working Party:

> "To encourage and participate in networks of Church to Church relationships by:
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> - Engaging with Churches across the world in a spirit of partnership, collaboration and mutuality; giving receiving inspiration, challenges and resources.
> - Sharing experiences, insights and best practice of mission with partners at home and overseas so that we learn from each other.
> - Fostering ecumenical links in mission, including the World Methodist Council.
> - Contributing to and shaping a common response to global mission with our Methodist, United and Uniting partners.
> - Facilitating encounters between people across denominational, national and cultural boundaries that enrich the Church at every level."

6. Budgetary impact of the Discipleship and Ministries Learning Network (DMLN)

6.1 Decisions of successive Conferences resulted in the creation of the DMLN on 1 September 2013. The Conference of 2012 agreed that the total annual budget for this would be £6.033m. This was reflected in the 2013-14 CCSB that was adopted this year and it will be £6.111m in 2014-15, with the increase reflecting a budgeted 2% increase in spending from the Methodist Church Fund (MCF) in line with the agreed increase in the MCF assessment. This is broadly designed to cover staff pay increases.

6.2 When that budget was being constructed it was naturally done at a high level based on broad estimates – the Conference agreed the overall total and what its sources would be, but allocating that money in detail across the new cost centres of the Network has been an important and complex task. There are a number of costs that the Team budgets and controls centrally, such as staff training, publications, print and stationery etc. When the 2013-14 budget was prepared it was decided that no attempt would be made to allow for these changes - the full cost of the DMLN was included within the Discipleship and Ministries (D&M) cluster budget with the intention that, as staff posts were filled and the exact nature and location of certain work and costs became known, this position would be reviewed for 2014-15. Within the forthcoming CCSB papers there will therefore be some reduction in the D&M cluster total as amounts are transferred to cover DMLN work within existing Team accounting practices. The key point is that the overall cost cannot be increased.

6.3 One of the biggest changes triggered by the implementation of the DMLN is the significant reduction in the number of institutions being used for initial ministerial training. Naturally the current process of allocating accepted candidates to institutions was designed for the situation where there were numerous options. With initial training to be concentrated solely at the Queen's Foundation from September 2014, the key decision will now be about training pathways and not institutions. Changes to the process of allocations and oversight are being worked through during this transitional year, but it also raises an important question about budget allocation.

6.4 The Church's practice has been to accept candidates for either presbyteral or diaconal training and then to allocate them to training institutions without any restriction based on a finite budget. Although not specifically related to the creation of the Network, it has been suggested that now may be an opportune time to consider again whether or not some form of cap should be applied to the numbers accepted as candidates for each order of ordained ministry. At its meeting in October 2013 the Council spent some time discussing this and the issue of forecasting deployment numbers. Therefore the Council is asked to consider whether or not it feels that the launch of the DMLN provides the appropriate time to propose to the Conference that a maximum number of candidates for any one year be agreed and that once a budget for initial training is set it has to be adhered to.

6.5 At the moment decisions regarding allocations of training pathways are not taken early enough to feed into the budget – which is rather based on a historic estimate that, through prudence, usually ends up being over generous. Over-budgeting leads as much to an inefficient use of resources as under budgeting. Given that there will only be one institution used for initial training, one suggestion has been that allocations of pathways should happen immediately after the Presbyteral or Diaconal Candidates' Selection Committee, rather than in a separately convened meeting some weeks later. *(See SO 722)*
Does the Council wish to ask the Team to look at ways which would enable the allocations process to take place at such a time which would enable greater coherence with the budgeting process?

6.6 A further consideration is the impact on the Queen's Foundation. When training was spread across a number of institutions, the financial impact on each one from the outcomes of the Allocations Committee varied from year to year. However, with all training now focussed on the Queen's Foundation, which is required to provide the training under a Memorandum of Understanding (MOU), the situation is quite different. As D&M staff work with colleagues at Queen's to organise training and the operation of the MOU, it will potentially be a challenge to hold Queen's accountable to a moving target. Given the proportion of their income that will

be coming from connexional funds, the Queen's trustees should expect to agree their annual budget at roughly the same time as the Council decides what it will propose to the Conference. This is a further reason to consider the requirement for a target maximum number of presbyteral and diaconal students and for the numbers and associated pathway costs to be fixed ahead of the relevant Council meeting in April or March. The secondary gain here (in a finance focussed paper) is that it starts to provide a trajectory for forecasting intake for the future. During the October Council meeting there was some debate around the large number of probationer diaconal appointments that are now required. This appeared to demonstrate a greater willingness to link candidating and initial ministerial training numbers to forecast deployment requirements.

6.6 The Council may wish to ask the Ministries Committee to consider these issues as it reviews the operation of the candidating and allocations processes as part of the DMLN implementation.

7. Specific Questions from the paper that the Council is asked to comment on:

7.1 Regarding the work to be undertaken on implementing a reserves level within the CPF of £5m:

a. **Should this planned reduction in the reserves of the fund include a reduction in the level of property levy made? [Given that both connexional pension schemes will be re-valued after 31 August 2014, it would not be appropriate to reduce the PRF income by altering the levy until 2015 at the earliest]**
b. **Can the Council suggest specific types of CPF-funded initiatives that could be considered?**
c. **Would the Council prefer a model where projects are managed connexionally or where, for example, the CGC is asked to oversee grants for a specific category of locally managed mission & ministry projects, or a combination of the two?**

7.2 The proposal to include the costs of the curator posts for each of the four core heritage sites within the Connexional Central Services Budget as outlined in section 3.

7.3 The planned work to establish and implement a reserves policy for the World Mission Fund as outlined in section 5.

7.4 The extent to which candidating and initial ministerial training numbers should be linked to forecast deployment numbers.

7.5 The extent to which the annual timetable for both budget preparation and candidating should be more closely aligned.